Required Report - public distribution

Date: 5/12/2006

GAIN Report Number: MX6037

Mexico

Cotton and Products

Annual

2006

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Report Highlights:
Mexican cotton production is forecast to decrease to 617,000 bales in MY 2006/07, driven by an 11.5 percent reduction in harvested area. Sluggish demand and a delayed announcement detailing the government support programs are the main reasons for this drop in production. Cotton consumption for MY 20006/07 is forecast to remain unchanged at 2.0 million bales. With sluggish demand, cotton imports are also expected to remain unchanged at 1.5 million bales in MY 2006/07.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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[MX]

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SECTION I. SITUATION AND OUTLOOK

Mexican cotton production for MY 2006/07 (July-August) is forecast at 617,000 bales (480 lb./bale), a decrease of 1.5 percent from the MY 2005/06 (July-August) revised estimated production. This decline in production was driven by a reduction in the planted area for cotton. Mexican farmers chose to reduce cotton plantings because two factors increased the risk profile of cotton production:

1. The Mexican Ministry of Agriculture (SAGARPA) waited until late in planting season to announce the details of the MY 2006/07 Cotton Price Support Program. This late announcement led many farmers to hedge their bets by either not planting anything, or by switching to other crops; and
2. Many farmers are concerned about new outbreaks of white fly, which can severely damage cotton production. In MY 2005/06 white fly infestation affected several cotton producing states, especially in the states of Sonora and Sinaloa.

The Confederation of Mexican Cotton Associations (CMCA) planting intentions survey revealed that Mexican producers have decreased cotton acreage by approximately 11.5 percent from area planted a year ago. Private sources estimate that approximately 50,000 hectares will be planted with genetically modified seed varieties in MY 2006/07. Production levels and harvested area for MYs 2004/05 and 2005/06 were revised downward and upward, respectively, reflecting new official data from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA).

MY 2006/07 domestic demand for cotton is forecast to remain unchanged at 2.0 million bales as a result of the sluggish demand from the textile industry, the main consumer of cotton in Mexico. The estimates for total cotton consumption in MY 2004/05 and 2005/06 remain unchanged, based on information from industry sources.

Mexico is expected to import approximately the same volume of cotton in MY 2006/07 as it did in MY 2005/06. Two main factors continue to the stagnate demand for cotton imports:

1. Increased competition from China has reduced Mexico’s apparel/textile exports to the U.S.; and
2. Apparel and textile products that have been imported into Mexico employing methods designed to evade import duties have distorted the market, and dampened demand for domestically produced product.

Despite the fact that the GOM has increased its efforts to enforce import duties, private sources have complained that sufficient measures to stop products from entering into Mexico without paying the import duty have not yet been implemented. The U.S. is expected to maintain its dominant market share of cotton imports, as practically all cotton imports are sourced from the United States. Cotton imports for MYs 2004/05 and 2005/06 have been revised upward according to official information from the Secretariat of Economy (SE), with preliminary information for MY 2005/06. Similarly, the MY 2004/05 and MY 2005/06 cotton export estimates have been revised downward and upward, respectively, reflecting both SE official figures and industry sources. With a slight decline in domestic production in MY 2006/07, ending stocks are projected to decline to 1.0 million bales, tightening the stocks-to-use ratio to 50.3 percent, compared to a 60.1 percent stocks-to-use ratio in MY 2005/06.

SECTION II. STATISTICAL TABLES

PSD Table						
Country	Mexico					
Commodity	Cotton				(HECTARES)(MT)	
	2004 Revised		2005 Estimate		2006 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	08/2004		08/2005		08/2006	
Area Planted	0	111,308	0	130,000	0	115,000
Area Harvested	105,000	107,487	126,000	126,500	0	114,000
Beginning Stocks	249,079	249,079	287,181	294,812	240,370	265,136
Production	136,079	134,099	138,256	136,431	0	134,400
Imports	394,085	400,640	304,817	340,189	0	340,000
MY Imp. from U.S.	0	0	0	0	0	0
TOTAL SUPPLY	779,243	**783,818**	730,254	**771,432**	240,370	**739,536**
Exports	29,393	26,337	48,988	65,400	0	76,195
USE Dom. Consumption	457,226	457,226	435,453	435,453	0	436,000
Loss Dom. Consumption	5,443	5,443	5,443	5,443	0	5,443
TOTAL Dom. Consumption	462,669	462,669	440,896	440,896	0	441,443
Ending Stocks	287,181	294,812	240,370	265,136	0	221,898
TOTAL DISTRIBUTION	779,243	**783,818**	730,254	**771,432**	0	**739,536**

PSD Table						
Country	Mexico					
Commodity	Cotton		(Hectares & 480 lb Bales) Conversion 0.00459291			
	2004 Revised		2005 Estimate		2006 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	**08/2004**		**08/2005**		**08/2006**	
Area Planted	0	111,308	0	130,000	0	115,000
Area Harvested	105,000	107,487	126,000	126,500	0	114,000
Beginning Stocks	1,144,139	1,144,139	1,319,159	1,354,212	1,104,134	1,217,896
Production	625,076	615,981	635,076	626,693	0	617,363
Imports	1,810,220	1,840,331	1,400,170	1,562,650	0	1,561,782
MY Imp. from U.S.	0	0	0	0	0	0
TOTAL SUPPLY	3,579,435	**3,600,450**	3,354,405	**3,543,555**	1,104,134	**3,397,042**
Exports	135,016	120,978	225,025	300,413	0	350,000
USE Dom. Consumption	2,100,257	2,100,257	2,000,243	2,000,243	0	2,002,756
Loss Dom. Consumption	25,002	25,002	25,002	25,002	0	25,002
TOTAL Dom. Consumption	2,125,260	2,125,260	2,025,246	2,025,246	0	2,027,758
Ending Stocks	1,319,159	1,354,212	1,104,134	1,217,896	0	1,019,283
TOTAL DISTRIBUTION	3,579,435	**3,600,450**	3,354,405	**3,543,555**	0	**3,397,042**

Trade Matrices

Cotton	H.T.S. 52010002. 52010003, 52010099		UNITS: MT
EXPORTS TO:	MY 2003/2004	MY 2004/2005	MY 2005/2006①
U.S.	2,359	8,020	2,077
CHINA	1,300	19,146	25,968
JAPAN	6,156	4,257	1,211
GUATEMALA	2,154	502	0
VIETNAM	2,144	2,179	1,950
TAIWAN	2,967	1,409	2,098
INDONESIA	1,236	979	861
OTHERS NOT LISTED	8,268	1,665	2,350
GRAND TOTAL	26,584	38,157	36,515

SOURCE: World Trade Atlas, Mexico Edition, January 2006.
MY begin August ends July. ①Data as of January 2006.

Cotton	H.T.S. 52010002. 52010003, 52010099		UNITS: MT
IMPORTS FROM:	MY 2003/2004	MY 2004/2005	MY 2005/2006①
U.S.	404,752	400,374	128,724
CAMEROON	0	0	340
MALI	527	0	0
OTHERS NOT LISTED	0	266	0
GRAND TOTAL	405,279	400,640	129,064

SOURCE: World Trade Atlas, Mexico Edition, January 2006.
MY begin August ends July. ①Data as of January 2006.

Cotton Yarn	H.T.S. 5205 , 5206 , 5207	UNITS: MT
EXPORTS TO:	CY 2004	CY 2005
UNITED STATES	19,558	15,044
CANADA	700	525
GUATEMALA	249	182
COLOMBIA	145	301
OTHER NOT LISTED	216	441
GRAND TOTAL	20,868	16,493

SOURCE: World Trade Atlas, Mexico Edition, January 2006.

Cotton Yarn	H.T.S 5205 , 5206 , 5207	UNITS: MT
IMPORTS FROM:	CY 2004	CY 2005
United States	4,834	6,756
EL SALVADOR	1,419	1,528
SPAIN	1,029	1,379
SOUTH KOREA	568	827
OTHER NOT LISTED	1,299	1,176
GRAND TOTAL	9,149	11,666

SOURCE: World Trade Atlas, Mexico Edition, January 2006.

Woven Cotton Fabrics	H.T.S. 5208, 5209, 5210, 5211, 5212	UNITS: M^2
EXPORTS TO:	CY 2004	CY 2005
United States	14,375,579	21,122,070
COLOMBIA	1,401,370	7,462,267
CUBA	542,519	241,855
HONG KONG	298,044	723,917
OTHER NOT LISTED	3,212,545	2,758,028
GRAND TOTAL	19,830,057	32,308,137

SOURCE: World Trade Atlas, Mexico Edition, January 2006.

Woven Cotton Fabrics	H.T.S. 5208, 5209, 5210, 5211, 5212	UNITS: M^2
IMPORTS FROM:	CY 2004	CY 2005
United States	86,035,717	60,652,182
BRAZIL	15,353,182	13,829,217
SPAIN	15,218,570	10,806,617
INDIA	13,217,139	8,939,559
GUATEMALA	12,209,205	13,654,897
PAKISTAN	8,116,620	11,569,470
OTHER NOT LISTED	34,719,691	36,418,312
GRAND TOTAL	184,870,124	155,870,254

SOURCE: World Trade Atlas, Mexico Edition, January 2006.

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY, & MARKETING

Production

According to the CMCA, the planted area for cotton will reach only 115,000 hectares (ha.) in MY 2006/07, an 11.5 percent decrease from the revised MY 2005/06 planted area estimate of 130,000 ha. As a result of this decrease in planted area, and significant drops in yields in certain areas, cotton production is expected to reach approximately 617,000 bales, a decrease of approximately 1.5 percent from the MY 2005/06 revised estimated production. Mexican farmers chose to scale back on cotton production because two factors increased the production risk profile for this crop:

1. The Mexican Ministry of Agriculture (SAGARPA) waited until late in planting season to announce the details of the MY 2006/07 Cotton Price Support Program. This late announcement led many farmers to hedge their bets by either not planting anything, or by switching their productive land over to other crops; and
2. Many farmers are concerned with new outbreaks of white fly, which can severely damage cotton production. In MY 2005/06 white fly infestation affected several cotton producing states, especially Sonora and Sinaloa.

The MY 2006/07 planted cotton area, yield, and production forecast by state is as follows:

COTTON FORECAST MY 2006/07			
Region	Planted Area	Yield (MT/Ha)	Production (Bales)
South Sonora	1,800	4.5	8,100
North Sonora	1,000	4.0	4,000
Mexicali, Baja California	26,285	4.8	126,160
Juarez, Chihuahua	36,200	4.9	177,380
Delicias, Chihuahua	7,800	5.8	45,240
Ojinaga & Aldama, Chihuahua	16,000	5.8	92,800
La Laguna, Coahuila & Durango	22,000	7.0	154,000
North Tamaulipas	3,000	3.0	9,000
TOTAL	114,085	5.4	616,680

Source: Confederation of Mexican Cotton Associations

The production estimates and harvested area for MY 2004/05 and MY 2005/06 have been revised downward and upward, respectively. These changes reflect the most recent official information from SAGARPA and the CMCA, respectively.

According to the CMCA, approximately 70,500 hectares were planted with genetically modified seed varieties in MY 2005/06. Genetically modified cotton has been planted in Mexico since 1996. The CMCA reports that genetically modified seed varieties have helped to combat pests, offset some production costs, and increase yields. However, for MY 2006/07, private sources estimate that this area could reach only 50,000 ha. This decline in usage of genetically modified seed varieties is primarily associated with the overall decline in cotton planted area, especially in Sinaloa and Sonora. In southern Sonora, for example, cotton growers planted 28,000 ha in MY 2005/06, 80 percent of which was sown with genetically modified seed. However, because of a number of factors, cotton growers throughout the entire state of Sonora expect to sow less than 3,000 hectares of cotton in the upcoming season. Farmers that want to plant biotech seed are also forced to invest a great deal of time and energy into applying for the proper governmental permits and authorizations. CMCA stated that as a result of the new Bio-safety law (See MX5061), it can take up to 60 days for farmers to be issued the SAGARPA permits, which include an environmental risk evaluation conducted by the Secretariat of the Environment (SEMARNAT). Because of bureaucratic delays in obtaining the plantings permits, a number of farmers have been unable to receive them in time for the planting season.

In spring of 2006 a major seed company was found to be in violation of the recently signed Bio-safety law. Evidently the firm had sold biotech seeds to cotton farmers in certain counties in the state of Sonora that were not previously approved for biotech plantings by SEMARNAT. Though the total non-compliant plantings consisted of less than 100 hectares, the company could be fined as much as $1 million pesos (U.S. $90,000) by SAGARPA. A final ruling on the case has yet to be handed down.

Cotton yields for MY 2006/07 are expected to reach 5.4 bales/ha, which is about 8 percent higher than the last marketing year. This increase is due to the fact that only the more productive areas are expected to be planted in MY 2006/07. Cotton yields around the country tend to vary widely. The overall average yield for the MY 2005/06 cotton crop, for example, was 5.0 bales/ha, with a range between 3.5 and 7.5 bales per hectare. The highest yield/ha was obtained in the La Laguna region.

Cotton products costs tend to vary by regions, ranging $10,000 and $14,000 pesos/ha (between U.S. $903 and $1,264/ha). The CMCA pointed out that, on average, production costs are higher than those in the United States, despite the fact that an increase in the use of BT cottonseed in some Mexican cotton-growing areas has helped offset some production costs.

The quality of Mexican cotton varies, and typically grades poorly, according to industry sources. Although there are approximately 150 cotton gins, almost all are outdated and tend to damage the cotton during the ginning process. Large textile firms use Universal HVI Calibration Cotton Standards to sort the cotton by fiber length, strength and length, micronaire (a measure of the cotton's fineness), color grade, color Rd (reflectance), color +b (yellowness), and trash percentage. Mexican growers, however, do not use such standards, and consequently only the smaller mills use Mexican cotton for products designed for the domestic market. Large mills generally purchase U.S. cotton, as U.S. cotton is considered to be more consistent and of higher quality. It should be noted, however, that recently larger mills have increased the consumption of domestic cotton as well as recycled cotton (i.e. cotton obtained from fabrics as by-product) in order to reduce production costs, mainly for the production of some apparel products such as denim jeans for the export market, where cotton quality is less important.

Production Policy

On November 16, 2005, SAGARPA announced in the *Diario Oficial* a support payment of U.S. $0.64 per pound of cotton, and an additional government support of U.S. $0.0375 per pound for those growers who had engaged in forward contracts of between U.S. $0.64 - .67 per pound. These support payments are part of the Target Price Program (see MX3098 and MX5047) and are applied only for the 2004/05 fall/winter and 2005 spring/summer crops. This support payment supports 900,000 hectares of cotton. The CMCA estimates that for the 2006 spring/summer and 2006/07 fall/winter crops, the GOM could reduce this support to no more than 700,000 ha.

In addition to the direct support through the "Target Price" program already mentioned, cotton producers receive an income support subsidy through the governmental program PROCAMPO. A flat-rate payment of $963 pesos/ha (U.S. $87/ha) was allocated to cotton and other crop farmers during the 2005 spring/summer crop cycle. This payment plan was repeated during the 2005/06-fall/winter-crop cycle. In an effort to bolster the incomes of the rural poor, the Government of Mexico pays farmers with production areas of between one and five hectares slightly more, $1,160 pesos/ha (U.S. $105/ha). They have yet to announce the payment amount for the 2006 spring/summer crop cycle.

Consumption

MY 2006/07 consumption is expected to remain unchanged at 2 million bales as a result of sluggish demand from the Mexican textile industry. There are two main users of Mexican cotton, the textile industry and the oil industry.

Despite the fact that Mexico's apparel and textile industry expanded as a result of NAFTA, and became the largest supplier of apparel and textiles in the U.S., it has been in decline for the past few years. This decline is almost exclusively attributed to the fact that Mexico's apparel and textile industry is losing domestic and U.S. market share to low cost production countries such as China. Industry sources estimate this trend will likely continue in MY 2006/07, albeit at a slower pace than a year ago.

Trade

MY 2006/07 cotton imports are forecast to remain practically unchanged at 1.562 million bales as result of weak demand from the textile industry. Despite stagnant demand for imports, the United States should continue to be the main supplier, accounting for practically 100 percent of total cotton imports. In FY 2005, Mexican cotton importers used U.S. $41.4 million of GSM-102 credit, compared to U.S. $60.2 million used in FY 2004, reflecting a slowdown in imports. The import estimates for MY's 2004/05 and 2005/06 have been revised upward reflecting official data from the Secretariat of Economy (SE) and preliminary information of CMCA.

Mexican cotton exports are expected to increase to 350,000 bales in MY 2006/07, an increase of 16.5 percent from MY 2005/06's revised estimate. This increase in exports is driven by strong demand from Asian countries (mainly China, Japan, Vietnam and Taiwan), which continue to be the largest export markets for Mexican cotton. The export figures for MY 2005 and MY 2006 have been adjusted downward and upward, respectively. The changes to MY 2005 data are based on official information from SE, while changes to MY 2006 data are based on information from industry sources.

Stocks

For MY 2006/07, the initial forecast of stocks shows a decrease of nearly 198,000 bales due to the decline in domestic production and the increase in exports. Stock estimates were revised upward for MY's 2004/05 and 2005/06 reflecting higher imports than previously estimated.

Marketing

The decline in cotton production in Mexico in the next year should enable U.S. exporters to continue strengthening their relationships with Mexican importers. As already mentioned, the United States continues to dominate the supply of cotton to Mexico. The U.S. industry should continue to increase Mexican consumers' awareness of the advantages of cotton textile products. The United States has a distinct commercial advantage with its close proximity to Mexico, which permits cotton purchases practically on an "as needed basis." Moreover, the availability of credit terms offered under the GSM-102 commercial credit guarantee programs improves the standing of U.S. cotton vis-à-vis other countries. Furthermore, U.S. cotton bales include HVI fiber classification labels. According to industry sources these fiber-defining systems reduce milling costs by increasing handling and processing efficiency. At the same time, however, industry consultants stated that in order to remain a major supplier of textiles and apparel to the United States, Mexican firms should continue their efforts to shift production from low-value-added basic garments to high-quality and technology intensive products. According to an industry source, faced with increasing competitive pressure from countries such as China, Mexican apparel producers need to focus more on higher fashion, and brand-name products that require smaller and more flexible runs. If both the apparel and textile industries can achieve this, the demand for U.S. cotton could increase again.

Textile Industry

As already noted, Mexico's textile industry is facing sluggish demand and strong foreign competition. According to the National Institute of Statistics, Geography, and Computer Science (INEGI), in 2005 textile output declined by approximately 2.6 percent compared to 2004. Mexico's National Textile Industry Chamber (CANAITEX) stated that in 2004 export markets and improved domestic economic performance bolstered the textile industry. In 2005, however, CANAITEX blamed the slump in textile output on:

1. Growing competition in the United States textile and apparel market from lower-cost countries;
2. Increased competition in the domestic market from foreign products that have been imported using methods designed to evade appropriate import duties;
3. Greater domestic production costs; and

This reduction in output trend is expected to continue through CY 2006, albeit at a slower pace than CY 2005. Private sources estimate that textile output could decline by approximately 2.2 percent, assuming that the U.S. and Mexican economies continue to grow. The Center for Private Sector Economic Studies (CEESP) pointed out that for 2006 the macroeconomic expectations continue to be favorable, despite a lack of structural reform and uncertainty surrounding the upcoming presidential elections. According to CEESP, the rebound of industrial activity, low rates of inflation, lower interest rates, growth of exports, and a stable currency, are factors that inspired confidence in the prospects for 2006. INEGI's figures show the average output growth rates for the Mexican textile industry:

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
%	-2.7	1.1	-6.3	15.7	10.5	3.9	3.1	5.4	-8.6	-5.9	- 6.7	2.8	-2.6

Source: National Institute of Geography, Statistics and Computer (INEGI).

As a result of the contraction in the textile industry over the last few years, CANAITEX estimated a loss of approximately 245,000 jobs between 2000 and 2005. Similarly, the Bank of Mexico stated that credits of private banks to the textile and apparel sectors fell sharply between 1999 and 2005, from $1.7 billion pesos to only $490 million pesos in 2005.

The textile industry primarily produces yarns and knitted and woven fabrics, with denim fabric being a specialty. Traditionally, these fabrics have been sold to domestic apparel manufacturers. The majority of the textile firms are located in the central part of the country (Puebla, Tlaxcala, Mexico, and Guanajuato). Industry sources pointed out that approximately 40 percent of textile firms are family-owned, employing fewer than five employees. Leading Mexican textile firms that export to the U.S. market include Kaltex, S.A., Lear Mexican Trim, and Eagle Trading Co. Also, there are other significant regional apparel and textile clusters along the U.S. – Mexico border, specifically in the states of Coahuila, Chihuahua, and Sonora. These are mostly larger maquiladora (in-bond companies) centers, where nearly all production goes to the U.S. market. According to an industry source, several of these "maquiladoras" producing denim jeans are increasingly using recycled cotton in order to reduce production costs. Reportedly, denim manufacturers are consuming nearly 1 million bales of cotton per year.

At the same time, CANAITEX continues to complain that the textiles imported into Mexico through methods designed to evade appropriate import duties continue to harm their industry. This contraband is mainly from China. As a result, both chambers of Congress have petitioned the Mexican Ministries of Treasury (SHCP) and Economy (SE) to intensify anti-smuggling measures.

The textile industry recognizes that they are becoming less competitive in several aspects. However, they are working to counteract these market forces by cutting costs and shifting production from low-value-added basic garments to higher value-added garments and complete services. Industry sources are optimistic that if they are able to differentiate their products and move more into U.S. niche markets, production levels could be maintained and Mexico could continue to be a major supplier of textiles and apparel to the United States.